

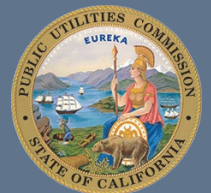


ENERGY EFFICIENCY PROGRAM PERFORMANCE AUDIT

Southern California Gas Company

January 1, 2020, through December 31, 2020

Utility Audits, Risk and Compliance Division
Utility Audits Branch
September 27, 2021



MEMBERS OF THE TEAM

Angie Williams, Director

Masha Vorobyova, Assistant Director

Nichelle Jackson, Program and Project Supervisor

Edwin Esternon, Lead

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**California Public Utilities Commission
Utility Audits, Risk and Compliance Division
400 R Street, Suite 221
Sacramento, CA 95811**

PUBLIC UTILITIES COMMISSION

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Transmitted via e-mail

September 27, 2021

Ms. Mia DeMontigny
Controller and Chief Financial Officer
Southern California Gas Company
555 W 5th Street, GT21C2
Los Angeles, CA 90013

Dear Ms. DeMontigny:

**Final Report Transmittal Letter—Audit of Southern California Gas Company’s
Energy Efficiency Program for the period of January 1, 2020, through
December 31, 2020**

The Utility Audits Branch of the California Public Utilities Commission has completed its audit of Southern California Gas Company’s (SoCalGas) total unspent and uncommitted funds reported for the Energy Efficiency program for the period of January 1, 2020, through December 31, 2020, or Program Year 2020. The final audit report is enclosed.

Our audit disclosed no findings requiring a response and we are issuing the report as final. We will post the final audit report on our website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

We appreciate SoCalGas’s assistance and cooperation during the engagement. If you have any questions regarding this report, please contact Nichelle Jackson, Program and Project Supervisor, at (916) 503-6096.

Sincerely,

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division
cc: See next page

Ms. Mia DeMontigny
Controller and Chief Financial Officer
Southern California Gas Company
September 27, 2021
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cc: Brian Prusnek, Director of Customer Programs and Assistance, SoCalGas
Erin P. Brooks, Customer Programs Regulatory Support Manager, SoCalGas
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EXECUTIVE SUMMARY

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a performance audit of the Energy Efficiency (EE) Program's total unspent and uncommitted funds, reported by Southern California Gas Company (SoCalGas) for the audit period of January 1, 2020, through December 31, 2020, or Program Year (PY) 2020.

Our audit objective was to determine whether SoCalGas's total amount of unspent and uncommitted EE funds from PY 2020 was reported accurately, supported by appropriate source documents, and in compliance with applicable Public Utility (PU) code sections, the CPUC Energy Efficiency Policy Manual, supplemental guidance, CPUC decisions, resolutions, orders, rulemakings, directives, advice letters, and SoCalGas's policies and procedures.

Based on the procedures performed, samples tested, and evidence gathered, we determined that SoCalGas's amount of unspent and uncommitted EE funds totaling \$1,463,808 for PY 2020 was computed accurately based on expenditures, commitments, and accrued interest reported in its 2020 Annual Report for EE Programs (Annual Report), supported by appropriate source documents, and in compliance with applicable PU code sections, the CPUC Energy Efficiency Policy Manual, supplemental guidance, CPUC decisions, resolutions, orders, rulemakings, directives, advice letters, and SoCalGas's policies and procedures. SoCalGas computed its unspent and uncommitted EE funds for PY 2020 as quantified in the Summary Schedule of Audit Results section of this audit report.

AUDIT REPORT

Background

Energy Efficiency Program

The EE programs are established to help California be more energy efficient and significantly reduce California's greenhouse gas emissions. The primary purpose of the EE programs is to develop programs and measures to meet energy savings goals and transform technology markets within California. The programs span a variety of sectors encompassing residential homes and commercial buildings, large and small appliances, lighting and heating, ventilation, air conditioning, industrial manufacturers, and agriculture. The CPUC authorizes set budgets to the EE programs annually, which are funded by a small portion of electricity and gas rates included in ratepayer bills. The EE programs utilize a variety of tools to meet energy savings goals, such as financial incentives and rebates, research and development for EE technologies, financing mechanisms, codes and standards development, education and public outreach, and marketing.

The EE program is principally administered and implemented by the four major Investor-Owned Utilities (IOUs) in California. The four major IOUs in California are Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), San Diego Gas & Electric Company (SDG&E), and SoCalGas.¹

School Energy Efficiency Stimulus Program

Assembly Bill (AB) 841 (Statutes 2020, Chapter 372), signed into law on September 30, 2020, established the School Energy Efficiency Stimulus Program (Stimulus Program). The Stimulus Program consists of the School Reopening Ventilation and Energy Efficiency Verification and Repair (SRVEVR) and School Noncompliant Plumbing Fixture and Appliance (SNPFA) programs, aimed generally at improving ventilation and replacing old or inefficient plumbing fixtures to safely prepare schools for operating during the COVID-19 pandemic.

AB 841² establishes a number of requirements for the CPUC regarding the development and administration of the SRVEVR and SNPFA program budgets, including the funding and transfer of funds from the IOUs to the California Energy Commission as follows:

- Any carryover amount from unspent and uncommitted energy efficiency funds for program years 2020, 2021 or 2022 to the following year's budget.
- Any allocated funds that remain unspent by the end of each program year may be carried over and contributed to the next year's budget for the Stimulus Program until the end of program year 2023.

As noted in Decision 21-01-004, SoCalGas initially estimated its total unspent and uncommitted funds at \$5,000,000. SoCalGas subsequently finalized the actual amount upon submission of its 2020 Annual Report via the California Energy Data and Reporting System (CEDARS) in May 2021. SoCalGas

¹ San Diego Gas & Electric (SDG&E) and Southern California Gas (SoCalGas) are affiliated subsidiaries of SEMPRA Energy.

² AB 841 applies to electrical corporations with 250,000 or more customer accounts within the state, and gas corporations with 400,000 or more customer accounts within the state.

computed an updated amount of \$1,463,808 in EE unspent and uncommitted funds for PY 2020 based on EE program expenditures, commitments, and accrued interest reported in its 2020 Annual Report.

Audit Authority

The UAB conducted this audit under the general authority outlined in the PU Code Sections 314.5, 314.6, 581, 582, and 584. Furthermore, pursuant to Decision 21-01-004, Ordering Paragraph 3, the CPUC authorized the UAB to conduct an audit of PG&E, SDG&E, SCE, and SoCalGas's unspent and uncommitted funds from PY 2020.

Objective and Scope

Our audit objective was to determine whether SoCalGas's total amount of unspent and uncommitted EE funds from PY 2020 was reported accurately, supported by appropriate source documents, and in compliance with applicable PU code sections, the CPUC Energy Efficiency Policy Manual, supplemental guidance, CPUC decisions, resolutions, orders, rulemakings, directives, advice letters, and SoCalGas's policies and procedures.

The scope of our audit was limited to determining the EE program total unspent and uncommitted funds reported by SoCalGas for the audit period of January 1, 2020, through December 31, 2020, or PY 2020.

Methodology

In planning our audit, we gained an understanding of the EE program, respective sub-programs, SoCalGas's operations, and identified relevant criteria, by reviewing applicable PU code sections, the CPUC Energy Efficiency Policy Manual, supplemental guidance, CPUC decisions, resolutions, orders, rulemakings, directives, advice letters, SoCalGas's policies and procedures, and interviewing SoCalGas's personnel.

We conducted a risk assessment, including evaluating whether SoCalGas's key internal controls relevant to our audit objective were properly designed, implemented, and operating effectively. Our assessment included conducting interviews, observing processes, or performing walkthroughs, and testing transactions. Any deficiencies in internal control that were identified during our audit and determined to be significant within the context of our audit objective are included in this report.

Additionally, we assessed the reliability of the data extracted from SoCalGas's accounting system. Our assessment included examining extracted reports, tracing data between differing report formats to verify completeness, and tracing report data to source documents. We determined the data to be sufficiently reliable to address the audit objective.

Based on the results of our planning, we developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objective. In order to determine total unspent and uncommitted funds, our audit procedures covered EE program expenditures, commitments, and accrued interest. To achieve our audit objective, we:

- Reviewed SoCalGas's accounting system, accounting policies, and processes and procedures for recording, tracking, and monitoring EE program expenditures.

- Reviewed SoCalGas's policies, processes, and procedures for recognizing and tracking EE commitments.
- Reviewed and reconciled expenditure totals by sub-program recorded in SoCalGas's accounting system to the balances reported in its Annual Report, Table 3: 2020 Expenditures, for accuracy and completeness.
- Reviewed and reconciled commitment totals recorded in SoCalGas's source systems to the total reported in its Annual Report, Table 7: Commitments, for accuracy and completeness.
- Assessed significance by performing an analysis of expenditure data and commitment data and evaluating program requirements.
- Reviewed the results of prior audits and verified whether corrective actions were implemented.
- Obtained an understanding of SoCalGas's key internal controls relevant to the EE program, such as classifying, recording, monitoring, approving, and reporting EE program expenditures and commitments, and assessed the design, implementation, and operating effectiveness of selected controls that are significant to the audit objective by:
 - interviewing key personnel and administering an internal control questionnaire;
 - reviewing SoCalGas's policies and procedures, and assessing their implementation pertaining to accounting, recording, and reporting EE expenditure and commitment data;
 - performing walkthroughs of selected transactions; and
 - tracing selected transactions to source documents.
- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing.
- Performed expenditure and commitment transaction testing by judgmentally selecting a non-statistical sample of transactions for the following categories:

Expenditures – We tested \$5,228,138 of \$90,367,960.

Commitments – We tested \$3,793,000 of \$8,049,432.

For the selected samples, errors found, if any, were not projected to the intended (total) population.

- For the selected samples, traced expenditures and commitments recorded in SoCalGas's accounting records to supporting documentation and determined whether expenditures and commitments were accurate, relevant to the EE program, supported by appropriate source documents, and incurred in compliance with applicable CPUC directives, orders, rules, regulations, and SoCalGas's policies and procedures by:

- Tracing expenditures to invoices to ensure the expenditure (1) was incurred within PY 2020, (2) agreed to the invoice amount, and (3) was calculated correctly;
 - Verifying expenditures were supported by appropriate source documents, such as detailed invoices, agreements/contracts, etc., to confirm the expenditure was allowable and categorized correctly;
 - Verifying payment has been completed; and
 - Tracing commitments to supporting documents to ensure the commitment (1) was reported within PY 2020, (2) was accurately calculated, and (3) agreed to supporting documents, such as work order authorizations and acceptance/approval letters, etc. to confirm the commitment amount.
- Traced interest accrued balances to supporting documentation and determined whether interest accrued was accurate by verifying the interest percentage earned and recomputing total interest amount for PY 2020.
 - Calculated total unspent and uncommitted EE funds using audited data.

We did not audit SoCalGas's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that SoCalGas reported, incurred, and supported its EE program unspent and uncommitted funds, based on its expenditures, commitments, and accrued interest, in accordance with applicable criteria. We considered SoCalGas's key internal controls only to the extent necessary to plan the audit and achieve our audit objective.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objective.

Conclusion

Based on the procedures performed, samples tested, and evidence gathered, we determined that SoCalGas's amount of unspent and uncommitted EE funds totaling \$1,463,808 for PY 2020 was computed accurately based on expenditures, commitments, and accrued interest reported in its 2020 Annual Report, supported by appropriate source documents, and in compliance with applicable PU code sections, the CPUC Energy Efficiency Policy Manual, supplemental guidance, CPUC decisions, resolutions, orders, rulemakings, directives, advice letters, and SoCalGas's policies and procedures. SoCalGas computed its unspent and uncommitted EE funds for PY 2020 as quantified in the Summary Schedule of Audit Results section of this audit report.

Follow-up on Prior Audit Findings

Our prior EE audit report for PY 2018 covering the period of January 1, 2018, through December 31, 2018, and issued on August 13, 2020, disclosed an audit finding. SoCalGas implemented corrective actions to address the prior audit finding. Based on the work performed in the current audit, we noted SoCalGas has satisfactorily resolved that finding.

Views of Responsible Officials

We discussed the audit results with SoCalGas representatives at an exit conference on July 30, 2021. At the exit conference, we stated that the final report will include the views of responsible officials. Because there were no audit findings requiring a response, we are issuing the report as final.

Restricted Use

This audit report is intended solely for the information and use of SoCalGas and the CPUC; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this audit report, which is a matter of public record and will be available on the CPUC website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

SUMMARY SCHEDULE OF AUDIT RESULTS

Summary of SoCalGas's PY 2020 EE Unspent and Uncommitted Funds

Cost Category	Reported	Audited	Audit Adjustment
PY 2020 Budget ¹	\$ 104,064,000	\$ 104,064,000	\$ -
Expenditures ²	(90,367,960)	(90,367,960)	-
Commitments ³	(8,049,432)	(8,049,432)	-
Evaluation, Measurement, & Verification (EM&V) ⁴	(4,207,248)	(4,207,248)	-
Balancing Account Interest ⁵	24,448	24,448	-
Total Unspent & Uncommitted Funds	\$ 1,463,808 ⁶	\$ 1,463,808	\$ -

¹ The amount is per the CPUC's Energy Division approval of the budgeted amount in the non-standard disposition dated December 20, 2019.

² 2020 SoCalGas Annual Report, Section 3, Table 3: Expenditures, dated May 3, 2021.

³ 2020 SoCalGas Annual Report, Section 7, Table 7: Commitments, dated May 3, 2021.

⁴ The CPUC's Energy Division has management and contracting responsibilities for all EM&V impact-related studies that are deducted from the calculation of unspent and uncommitted funds. Additionally, EM&V was not within the scope of the audit.

⁵ Balancing Account Interest is derived from the Monthly EE Expenditure report for the Procurement Energy Efficiency Balancing Account filed with the CPUC's Energy Division.

⁶ Per Decision 21-01-004, Table 1: Estimated Stimulus Program Funding for 2021, SoCalGas initially estimated the total unspent and uncommitted funds for PY 2020 to be \$5,000,000. SoCalGas subsequently computed an updated amount of \$1,463,808 based on reported data in its 2020 Annual Report.